

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2021-324-WS

IN RE: Application of Kiawah Island Utility,)	REBUTTAL TESTIMONY
Incorporated to File Proposed Changes)	
in Rates, Charges, Classifications)	OF
and/or Regulations for Water and)	
Sewer Service.)	DONALD H. BURKETT

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald H. Burkett, CPA. My principal place of business is 3101 Sunset
3 Boulevard, West Columbia, South Carolina 29171.

4 **Q. ARE YOU THE SAME DONALD BURKETT WHO PREVIOUSLY**
5 **PROVIDED DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. The purpose of my rebuttal testimony is to discuss and address certain aspects of
9 testimony filed by the Office of Regulatory Staff (“ORS”) relating to Kiawah Island
10 Utility, Inc. (“KIU” or “Company”). Specifically, I address ORS’s recommended
11 adjustments to KIU’s cash working capital allowance and amortization period for rate
12 case expense recovery. Lastly, I provide an update on rate case expenses incurred to
13 date.

1 **Q. PLEASE SUMMARIZE ORS WITNESS HERPEL'S RECOMMENDED**
2 **ADJUSTMENT TO KIU'S CASH WORKING CAPITAL.**

3 A. KIU and the ORS are in agreement on the methodology used to determine cash working
4 capital, namely the formula method (also known as the 45-day rule). Under this
5 method, the utility's cash working capital is generally calculated as 45 divided by 365
6 multiplied by the utility's operating costs. While there is no hard-and-fast universal
7 rule on exactly what costs are included in the calculation, historically in South Carolina
8 certain expenses such as taxes and depreciation have been excluded from the
9 calculation. In addition to those two excluded expenses, ORS now proposes to remove
10 from the calculation purchased water costs that have historically been included for
11 water utilities in the state. ORS justifies this recommendation by claiming it is
12 consistent with the calculation used in two other jurisdictions (Pennsylvania and North
13 Carolina) as well as the Commission's treatment of electric utilities and Blue Granite
14 Water Company ("Blue Granite").

15 **Q. DO YOU AGREE WITH ORS WITNESS HERPEL'S RECOMMENDATION**
16 **TO REMOVE PURCHASED WATER FROM THE CASH WORKING**
17 **CAPITAL ALLOWANCE? PLEASE EXPLAIN.**

18 A. No, I do not. Witness Herpel cites two jurisdictions in which purchased water is
19 removed from the cash working capital calculation, but the Company could just as
20 easily cite two jurisdictions that do not exclude those costs in the calculation (Texas
21 and Oregon). NARUC makes abundantly clear that there is no one single correct
22 calculation, "Even when the jurisdiction adopts the formula approach, the actual

1 elements of the formula may be different from the formula used in other jurisdictions,
2 or even from those used in other cases.”¹ Clearly, the Commission should not be
3 swayed by the two jurisdictions “cherry-picked” by the ORS to support its
4 recommendation.

5 ORS witness Herpel also cites the Commission’s treatment of energy utilities
6 as justification for his recommended adjustment. Again, NARUC guidance is
7 instructive, “In a 1949 case, the FERC modified the formula so that not only were taxes
8 and depreciation excluded from the formula, but purchased power was also excluded
9 (based on the contention that purchased power is paid for after revenues are received.)”²
10 The key to why FERC excluded purchased power is because it wasn’t paid until after
11 revenues were received by energy utilities from their customers. However, this
12 rationale is not applicable to KIU’s purchased water because KIU pays its water
13 suppliers before fully billing its customers for water. KIU purchases water from St.
14 Johns Water Company (“SJWC”). SJWC’s invoice to KIU for February purchased
15 water is billed at the beginning of March, with a payment due date of March 15. KIU
16 requires some time to review and process the bill before payment can be made.
17 Additionally, KIU’s customers would be billed for the February purchased water in
18 cycles throughout the month of March, with respective payments due within 26 days.
19 Given the disparity in purchased water invoicing and customer billing periods,

¹ NARUC Rate Case and Audit Manual, 2003

² NARUC Rate Case and Audit Manual, 2003

1 purchased water places significant cash demands on KIU and is appropriate to include
2 in the cash working capital calculation.

3 Finally, ORS witness Herpel states that his proposal is consistent with the Blue
4 Granite case. In that case, Blue Granite requested a revenue increase of 49% - much
5 higher than KIU's request of 14% - and proposed in its request to exclude purchased
6 water costs from the cash working capital calculation as a way of mitigating what
7 would have been an even more substantial rate impact on customers. Blue Granite did
8 not propose the calculation out of principle, but as a voluntary concession. ORS
9 accepted Blue Granite's proposal, and this aspect of the case was settled. Given the
10 difference in circumstances between Blue Granite's case and KIU's, the Commission
11 need not and should not deviate from its long-settled precedent to include purchased
12 water in the cash working capital allowance in this case.

13 **Q. DO YOU AGREE WITH ORS WITNESS HERPEL'S RECOMMENDATION**
14 **TO REMOVE BAD DEBT FROM THE CASH WORKING CAPITAL**
15 **ALLOWANCE?**

16 A. No, I do not. Again, different jurisdictions use different iterations of the method
17 formula. The Commission has historically allowed bad debt to be a component of
18 KIU's cash working capital formula, and KIU sees no reason this treatment should be
19 changed in this case.

20 **Q. PLEASE RESPOND TO THE RECOMMENDATION OF ORS TO AMORTIZE**
21 **RATE CASE COSTS OVER THREE YEARS.**

1 A. ORS argues that the recommended three-year amortization period allows for more
2 accurate timing of expense recovery; however, this is incorrect and also inconsistent
3 with its own argument. First and foremost, the timing of rate case expense recovery is
4 always on a regulatory lag. These prudent and reasonable costs are carried by the
5 Company, foregoing any return or interest while carrying these costs, until the date of
6 an order. Preparatory work on a rate case filing begins well before the application is
7 even filed, and this pattern seems to only be gaining more emphasis, as the Commission
8 and Staff increase their requirements due at the time of filing to promote judicial
9 efficiency. Once the application is in fact filed, the Company continues to incur
10 prudent expenses during the lengthy audit process and hearing preparation. The
11 Commission typically issues an order approximately six months after filing, and the
12 utility generally needs an additional month to program, test, and implement the
13 approved rates. Usually the date of the order is the commencement of the amortization
14 period and the start of the utility recovering those approved costs, only if the utility is
15 immediately prepared to operationally implement approved rates.

16 The process I just described can easily result in a utility carrying expenses for
17 a year, or perhaps even more depending on unique circumstances. For example, KIU
18 was required to conduct a cost-of-service study for the current case, which was
19 contracted well before the case was actually filed in November. Under ORS's proposal,
20 these costs wouldn't be fully recovered until June of 2025. In other words, under these
21 assumptions, a three-year amortization period could in fact result in a waiting period of
22 four years before costs are fully recovered and unamortized rate case expenses being

1 on the books at the time of KIU's next rate case filing if it files in three years.³ While
2 KIU's current case was filed three years after its previous one, high inflation rates
3 causing increases to KIU's operating costs could affect the Company's determination
4 of whether to file future rate cases more frequently, thereby exacerbating the issue.

5 The overlap of unamortized rate case expenses and utility filings can be seen in
6 many dockets where the ORS recommends an adjustment to add unamortized, prior
7 rate case expense balance to the new case expenses and amortize the whole over the
8 recommended period. This treatment results in even further lengthening the period of
9 recovery of the original case expenses, possibly up to seven years or more under
10 Witness Rabon's three-year-cycle recommendation. Seven years does not appear to be
11 considered reasonable according to ORS testimony, nor is it reasonable to the
12 Company. For these reasons, the Company's recommendation of a two-year recovery
13 period is more appropriate.

14 **Q. PLEASE PROVIDE AN UPDATE TO THE COMPANY'S RATE CASE**
15 **EXPENSES.**

16 A. As of March 7, 2022, the Company, on behalf of itself and the ORS, has incurred
17 \$200,119 of costs associated with this case. Details of these costs have been provided

³ ORS witness Rabon suggested a three-year amortization of rate case expenses is appropriate given the timing of historical filings.

1 periodically in responses and supplemental responses to ORS Discovery Request No.
2 2-22.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A. Yes, it does.